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Proposed statement on auditing standards : interim financial information required by SEC regulation S-K ;Interim financial information required by SEC regulation S-K; Exposure draft (American Institute of Certified Public Accountants), 1980, Nov. 20

American Institute of Certified Public Accountants. Auditing Standards Executive Committee

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# **EXPOSURE DRAFT**

## **PROPOSED STATEMENT ON AUDITING STANDARDS**

### **INTERIM FINANCIAL INFORMATION REQUIRED BY SEC REGULATION S-K**

*(Amends Statement on Auditing Standards No. 24, Review of Interim Financial Information)*

**NOVEMBER 20, 1980**

**Prepared by the AICPA Auditing Standards Board  
for comments from persons interested in auditing and reporting**

**Comments should be received by January 19, 1981, and addressed  
to AICPA Auditing Standards Division, File 2311A  
AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036**

M815075

## SUMMARY

This proposed Statement on Auditing Standards revises SAS No. 24, *Review of Interim Financial Information*, in response to the recent revision of the Securities and Exchange Commission's Regulation S-K.

The principal changes proposed in this exposure draft deal with the effect on the auditor's report of interim financial information accompanying audited financial statements. The changes are primarily technical and are not expected to result in major changes in reporting practices. The draft retains the SAS No. 24 policy of providing for exception reporting rather than explicit reporting on such interim financial information, and the reporting guidance is consistent with that in SAS No. 27, *Supplementary Information Required by the Financial Accounting Standards Board*.

Under earlier SEC regulations, certain companies were required to present selected quarterly data in a note to audited financial statements filed with the commission. SAS No. 24, paragraphs 24-28, provides guidance on the auditor's responsibilities regarding interim financial information included in a note to audited financial statements. Regulation S-K has been changed, however, to permit companies to present the quarterly data outside the financial statements. In proposing the revision to Regulation S-K, the SEC stated, "The Commission continues to believe that auditor association with this information is desirable and therefore is proposing this rule change with the expectation that the existing auditor association and review of this information will remain unchanged and that appropriate amendments to the auditing literature will be recommended and adopted."



**American Institute of Certified Public Accountants**

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

November 20, 1980

Accompanying this letter is an exposure draft of a proposed Statement on Auditing Standards consisting of revisions of SAS No. 24, Review of Interim Financial Information. The revisions are in response to recently adopted changes in Regulation S-K of the Securities and Exchange Commission, as explained in the accompanying summary.

The changes proposed in this exposure draft are primarily technical in nature and are not expected to result in major changes in reporting practices. The changes in the SEC regulations are effective for fiscal years ending after December 15, 1980. For these reasons, the Auditing Standards Board has limited the exposure period to sixty days.

Comments or suggestions on any aspect of this exposure draft will be appreciated. The AICPA Auditing Standards Board's consideration of responses will be helped if the comments refer to the specific paragraph numbers and include supporting reasons for any suggestions or comments.

In developing guidance, the AICPA Auditing Standards Board considers the relationship between the cost imposed and the benefits reasonably expected to be derived from audits. It also considers differences that the auditor may encounter in the audit of the financial statements of small businesses and, when appropriate, makes special provisions to meet those needs. Thus, the board would particularly appreciate comments on those matters.

Responses should be addressed to the AICPA Auditing Standards Division, File 2311A, in time to be received by January 19, 1981. Written comments on the exposure draft will become part of the public record of the AICPA Auditing Standards Division and will be available for public inspection at the offices of the American Institute of Certified Public Accountants after February 2, 1981, for one year.

Sincerely,

James J. Leisenring, Chairman  
Auditing Standards Board

D. R. Carmichael, Vice President  
Auditing

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*This exposure draft has been sent to*

- *practice offices of CPA firms*
  - *members of AICPA Council and technical committee chairmen*
  - *state society and chapter presidents, directors, and committee chairmen*
  - *organizations concerned with regulatory, supervisory, or other public disclosure of financial activities*
  - *persons who have requested copies*
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# PROPOSED STATEMENT ON AUDITING STANDARDS

## INTERIM FINANCIAL INFORMATION REQUIRED BY SEC REGULATION S-K

(Supersedes Statement on Auditing Standards No. 24, *Review of Interim Financial Information*, paragraphs 2 and 24 through 28.)

A. The following paragraph supersedes Statement on Auditing Standards No. 24, paragraph 2:

2. Interim financial information may be presented alone or may accompany, or be included in a note to, audited financial statements. This Statement applies to reviews of interim financial information

- a. That is presented alone, including interim financial statements and summarized interim financial data that purport to conform with the provisions of Accounting Principles Board Opinion No. 28, as amended, and that is issued by a public entity to stockholders, boards of directors, or others, or contained in reports filed with regulatory agencies;<sup>1</sup> or
- b. That accompanies, or is included in a note to, audited financial statements of a public or nonpublic entity.

This Statement does not apply to an accountant's involvement with interim financial information included in documents filed with the Securities and Exchange Commission (SEC) unless the accountant has reviewed the interim financial information<sup>2</sup> in accordance with the provisions of this Statement.<sup>3</sup>

1. For purposes of this Statement, a public entity is any entity (a) whose securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of its securities in a public market, or (c) a subsidiary, corporate joint venture, or other entity controlled by an entity covered by (a) or (b). The provisions of this Statement are not applicable to separately issued financial statements of a subsidiary, corporate joint venture, or other investee that is not a public entity as that term is defined above. For purposes of this Statement, the term *interim* includes financial statements or information for a twelve-month period

ending on a date other than the entity's normal year-end. (See SAS No. 26.)

2. Item 12(a) of Regulation S-K of the SEC requires such a review when certain selected quarterly financial data is part of a document filed with the SEC, as specified by that regulation (see paragraph 24).

3. Additional considerations of the accountant relating to unaudited interim financial information presented or incorporated by reference in a filing under the Securities Act of 1933 are described in SAS No. 1, section 710, "Filings Under Federal Securities Statutes." The accountant's involvement with such information in a comfort letter is described in section 630, "Letters for Underwriters."

B. The heading preceding paragraph 16 of SAS No. 24 is changed to "The Accountant's Report on a Review of Interim Financial Information."

C. The following paragraphs supersede paragraphs 24 through 28 of SAS No. 24:

### Effect on the Auditor's Standard Report When Interim Financial Information Accompanies Audited Financial Statements

24. Certain registrants are required by item 12(a) of SEC Regulation S-K to include selected quarterly financial data in their annual reports or other documents filed with the SEC that contain audited financial statements.<sup>14</sup> Other companies may voluntarily include similar information in filings with the SEC. If the independent accountant has audited the financial statements of annual periods for which selected quarterly financial data specified by Regulation S-K are presented, he is required to perform a review of the selected quarterly financial data. The procedures for a review, specified in paragraphs 6 through 15, are appropriate for an independent accountant's review of the selected quarterly financial data.

14. Item 12(a), "Supplementary Financial Information—Selected Quarterly Financial Data," states in part, "Disclosure shall be made of net sales, gross profit . . . , income before extraordinary items and cumulative effect of a change in accounting, per share data based upon such income, and net income for each full quarter within the two most recent fiscal years and any subsequent interim period for which income statements are presented."

25. Other entities that do not file with the SEC may elect to include similar interim financial information in their reports containing audited financial statements. There is no requirement for the independent auditor to apply review procedures to such information. However, the procedures specified in paragraphs 6 through 15 are appropriate if the auditor has been requested to review the interim financial information.

26. Ordinarily, the interim financial information would be presented as supplementary information outside the audited financial statements. If management chooses to present the interim financial information in a note to the audited financial statements, the information should be clearly marked as unaudited, and if the information in the note has not been reviewed, that fact should be stated in the note.

27. The accountant may perform the review procedures either at the time of an audit of the annual financial statements or quarterly before the issuance of the data. Performance of the procedures before issuance permits early consideration of significant accounting matters affecting the interim financial information and early modification of accounting procedures that the accountant believes might be improved. If review procedures are performed before the issuance of the quarterly data, they need not be repeated at the time an audit is performed.

28. In the circumstances described in paragraphs 24 and 25, the auditor ordinarily need not modify his report on the audited financial statements to refer to his review or to the interim financial information. The interim financial information has not been audited and is not required for presentation of financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles. Accordingly, the auditor need not report on the review of the interim financial information accompanying the audited financial statements.

29. The auditor's report on the audited financial statements should be expanded, however, if the selected quarterly financial data required by item 12(a) of Regulation S-K (a) is omitted or (b) has not been reviewed. For example, if the se-

lected quarterly financial data required by item 12(a) has not been reviewed, the auditor's report should include an additional paragraph, which might be worded as follows:

The selected quarterly financial data on page xx contains information that we did not audit, and, accordingly, we do not express an opinion on that data. We attempted but were unable to review the quarterly data in accordance with standards established by the American Institute of Certified Public Accountants because we believe that the company's system for preparing interim financial information does not provide an adequate basis to enable us to complete such a review.

30. The auditor's report on the audited financial statements should also be expanded when (a) interim

financial information included in a note to the financial statements, including information that has been reviewed in accordance with the procedures specified in paragraphs 6 through 15, is not appropriately marked as unaudited, (b) the interim financial information does not appear to be presented in conformity with generally accepted accounting principles (see paragraphs 20 through 22), or (c) the interim financial information includes an indication that a review was made but fails to state that the review is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is an expression of opinion regarding the financial statements taken as a whole, and accordingly, no such opinion is expressed.